

D.P.U. 95-49

Application of Boston Edison Company, pursuant to G.L. c. 164 App., §§ 2-1 through 2-10 and 220 C.M.R. §§ 7.00 et seq., for approval by the Department of Public Utilities of the Company's proposed operating budget and applicable monthly surcharge for the Residential Energy Conservation Service program for fiscal year 1996 (July 1, 1995 through June 30, 1996).

APPEARANCES: Catherine J. Keuthen, Esq.
800 Boylston Street
Boston, Massachusetts 02199
FOR: BOSTON EDISON COMPANY
Petitioner

Christine Constan Erickson, Esq.
100 Cambridge Street
Boston, Massachusetts 02202
FOR: DIVISION OF ENERGY RESOURCES
Intervenor

I. INTRODUCTION

On April 28, 1995, pursuant to G.L. c. 164 App., §§ 2-1 through 2-10 and 220 C.M.R. §§ 7.00 et seq., Boston Edison Company ("BECo" or "Company") filed with the Department of Public Utilities ("Department") a petition for approval by the Department of the Company's proposed operating budget of \$1,480,888, with reconciliations of under- and over-collections from prior fiscal years resulting in a net amount to be collected of \$1,324,951, and applicable monthly surcharge of \$0.16¹ for the residential energy conservation service ("ECS") program² for the fiscal year July 1, 1995 through June 30, 1996 ("FY 1996"). The petition was docketed as D.P.U. 95-49.

Pursuant to notice duly issued, a hearing was held at the offices of the Department on May 18, 1995. The Department granted the petition for leave to intervene filed by the Commonwealth of Massachusetts, Executive Office of Economic Affairs, Division of Energy Resources ("DOER"). No other petitions for leave to intervene were filed.

In support of its petition, the Company sponsored the testimony of one witness: Agnes E. Hagopian, energy conservation services program manager at BECo. DOER sponsored the testimony of Bruce Ledgerwood, program planner for residential conservation programs at DOER. BECo submitted two exhibits and the DOER submitted two exhibits.

¹ This figure is truncated from \$ 0.1623 (See Exh. BE-1, Vol. 1, at I.1, and at III-1.1).

² The ECS program consists of a one-to-four unit residential plan and a multifamily building ("MFB") program.

II. STATUTORY HISTORY

In response to the mandates of the National Energy Conservation Policy Act of 1978, the Commonwealth of Massachusetts enacted St. 1980, c. 465, codified as G.L. c. 164 App., §§ 2-1 through 2-10, to establish the ECS program and to require all electric and gas utilities in Massachusetts to offer on-site energy conservation and renewable energy resource services to their customers, thereby encouraging citizens to take steps immediately to improve the energy efficiency of all residential buildings in Massachusetts. G.L. c. 164 App., § 2-2. The statute requires each utility to provide certain energy conservation services through individual or joint efforts in conformance with an overall state plan. Id.

Pursuant to the statute, DOER must adopt a state plan and promulgate regulations necessary to implement that plan.³ Id., § 2-3(a). Specifically, DOER is responsible for: (1) establishing residential energy and conservation goals; (2) establishing ECS program guidelines; (3) monitoring the implementation of the program requirements; and (4) overseeing the implementation of the state plan by approving a utility implementation plan ("UIP"). Each utility must submit a UIP to DOER annually. After a utility receives annual approval of its UIP from DOER, it must submit its proposed ECS program operating budget and proposed ECS surcharge for the upcoming fiscal year to the Department for review. Id., § 2-7(b).

³ Prior to 1989, DOER required utilities to offer a commercial energy conservation service program for businesses and other commercial customers; however, DOER eliminated that requirement when the Department required the implementation of demand-side management ("DSM") programs that are geared toward commercial customers. Commonwealth Gas Company, D.P.U. 92-116, at 3 (1992).

III. COMPANY PROPOSAL

A. Establishment of ECS Program Goals

According to DOER, key issues for the FY 1996 ECS program are (1) to begin the first comprehensive evaluation of the ECS program, and (2) to provide energy conservation services which eliminate duplication of service with utility company DSM programs (Exh. DOER-2, at 3-4). DOER outlined goals for three areas of the ECS program in FY 1996: (1) numerical targets for audits and equivalent services; (2) coordination of ECS services with Weatherization Assistance Programs ("WAP");⁴ and (3) appliance efficiency education service ("AEES")⁵ delivery, as appropriate (id. at 2-3). In addition, DOER emphasized that utilities, in implementing their ECS programs, should pay special attention to (1) customer screening procedures, (2) quality control reporting, and (3) the content and distribution schedule of the ECS program announcement (id. at 5-6).

In conference with the utilities, DOER established specific goals for the delivery of audits and equivalent services (id. at 1 and Att. 1). Equivalent services are designed to assist customers in pursuing recommended conservation measures and provide educational and information

⁴ WAP, operated by the Executive Office of Communities and Development, provides conservation measures and education to low income customers (Exh. DOER-2, at 3).

⁵ AEES is the delivery of fuel-blind, site specific, appliance efficiency education at the time of the audit visit which includes, at a minimum: (1) completion and explanation of an appliance inventory checklist indicating the appliances in the home and the estimated energy use of the five highest users; (2) delivery of written and verbal education about how to use appliances efficiently; (3) delivery of written education about estimated energy costs for some common household appliances; and (4) delivery of written and verbal education about how and why to purchase energy efficient appliances (Exh. DOER-2, Att. 2).

services (id.). The equivalent services include: (1) demonstration material installations ("DMI"),⁶ (2) major work order ("MWO") specification development services,⁷ (3) low-cost work order ("LCWO") specification development services,⁸ (4) bulk purchasing ("BP") services,⁹ (5) AEES, (6) contractor arranging services ("CAS"),¹⁰ and (7) post-installation inspections ("PII")¹¹ in homes where conservation measures were installed following an ECS audit (id., Att. 2, at 1-6). An eighth, optional service is the ECS/WAP coordination service (id., Att. 2, at 7-8).

Equivalent services goals are established as a percentage of audit recipients who should pursue equivalent services following an audit (id., Att. 1). As in prior fiscal years, ECS audit and equivalent services goals do not represent a ceiling to customer participation (Exh. DOER-2, at 2). See Mass-Save, Inc., D.P.U. 91-28, at 4-5 (1991).

⁶ During site visits, auditors install low-cost energy conservation materials, not to exceed \$30 in value, to demonstrate the proper application and installation of the materials (Exh. DOER-2, Att. 2). Auditors choose materials based on the fuel-blind, specific energy conservation needs of a dwelling as determined during the audit (id.).

⁷ A MWO specification is the preparation of a job specification sheet for a major energy conservation measure(s) recommended during the audit which allows a customer to: (1) install the measure(s) personally; (2) hire a contractor to install the measure(s); or (3) obtain complete and accurate bids from contractors to install the measure(s), using the ECS contractor arranging service (Exh. DOER-2, Att. 2).

⁸ Purchase specifications are prepared for materials for low-cost conservation measures affecting infiltration, domestic hot water use, and lighting (Exh. DOER-2, Att. 2).

⁹ BP service provides access to bulk bidding or group purchasing for conservation materials of the same type and quality demonstrated during an audit (Exh. DOER-2, Att. 2).

¹⁰ CAS provide technical assistance and guidance to a customer in selecting a contractor to install recommended conservation measures (Exh. DOER-2, Att. 2).

¹¹ DOER-approved inspectors determine on-site whether the energy conservation measures that were installed are performing properly to save energy (Exh. DOER-2, Att. 2).

DOER stated that goals for audits and equivalent services for each ECS service provider were based on requests for services over the last three years and on the anticipated impact of DSM programs on the production of audits and equivalent services (Exh. DOER-2, at 2). DOER indicated that, although minor adjustments have been made to audit and equivalent services levels for FY 1996 where appropriate, goals for the delivery of ECS services were set at similar levels as in the fiscal year July 1, 1994 through June 30, 1995 ("FY 1995") for all but one ECS provider (id.). With respect to goals for the MFB program, DOER stated that it established levels of production activity for FY 1996 that were similar to those established for FY 1995 (id. at 3).

DOER also stated that where utility DSM programs offer customers assistance with major conservation measures, demand might be limited for certain ECS services, specifically CAS and PII (id.). DOER therefore has given ECS program providers the option of eliminating the equivalent services goal for CAS and PII where comparable services are being provided through the utility's DSM program (id.). DOER stated, however, that program providers must still

maintain the capacity to provide CAS or PII for those customers who do not qualify for, or do not wish to participate in, the DSM program, and that, in addition, the ECS provider needs to ensure that ECS and DSM costs are properly allocated (id.).

B. Audit and Equivalent Service Goals

BECo participated with DOER in goal-setting for FY 1996 and stated that its UIP for FY 1996 was approved by DOER (Exhs. BE-1, at 2; BE-2, Vol. 1, at V-1; DOER-1, at 3). DOER, in consultation with the Company, increased the FY 1996 audit goal for 1-to-4 unit homes to 8,200 from 8,000 in FY 1995 (Exhs. DOER-2, Att. 1; BE-2, Vol. 1, at II.1). The goal was established after noting no imminent programmatic changes or other emerging influences that would impact production levels (Exh. DOER-2, at 2).

DOER, in consultation with the Company, established equivalent service goals for 1-to-4 unit homes as the following percentages of all customers audited: (1) DMI - 95 percent; (2) MWO - 30 percent; (3) LCWO - 40 percent; (4) BP - 5 percent; (5) AAES - 10 percent; and (6) CAS and PII - 1 percent each (id., Att.1). BECo's goal is set at 300 audits (id.). BECo has elected to participate in the optional WAP service during FY 1996, with a goal of providing 450 ECS/WAP audits (Exh. BE-2, Vol. 1, at II.1).

The proposed budget for each fiscal year for each ECS service provider is based on the established ECS goals, detailed in the UIP, which specify levels of effort required for each individual utility or group of utilities (Exh. DOER-1, at 2, see also Exh. BE-2). DOER stated that it found the Company's proposed budget consistent with the ECS program objectives and the approved UIP (Exh. DOER-1, at 3-4).

C. Comparative Analysis

The Company submitted to the Department an ECS program provider budget comparison ("budget comparison") that contrasted the Company's anticipated costs for ECS implementation during FY 1996 with the anticipated costs of five other ECS providers over the same period (Exh. BE-2, Vol. 1, at V-11.a.1).¹² The five ECS providers against which the Company's ECS budget is compared include four companies individually offering ECS services to their customers, and a fifth entity, Mass-Save, Inc. contracted by a group of utility companies to provide ECS services (id.). The average cost per ECS audit for Mass-Save, Inc. was \$140.81 (id.). The remaining ECS providers offered ECS services at an average cost per ECS audit of \$121.96 to \$200.94 (id.). The average cost per FY 1996 audit for BECo was \$135.70 (id.).

¹² The Company submitted its ECS program provider budget comparison for program year FY 1996 in the form of a spreadsheet with eight categories of expenses listed for each ECS program provider: (1) administration/internal expenses; (2) marketing; (3) field delivery administration; (4) residential ECS FY 1996 budget; (5) ECS audit goal; (6) average cost per audit; (7) program evaluation; and (8) regulatory assessments (Exh. BE-2, Vol. 1, at V-11.a.1).

IV. STANDARD OF REVIEW

In order for the Department to review a utility's proposed ECS program budget, the utility's budget filing must conform to Department regulations set out at 220 C.M.R. §§ 7.00 et seq. It also must meet the filing requirements enumerated in Mass-Save, Inc., D.P.U. 85-189, at 15-16 (1985).

After determining that a utility's ECS program budget filing conforms with these regulations and requirements, the Department must review the proposed budget for reasonableness and consistency with the state plan adopted by DOER and approve the budget in whole or with modification. G.L. c. 164 App., § 2-7(b). The Department has stated that, in general, expenses for the ECS program require the same level of justification as do other utility operating expenses. Mass-Save, Inc., D.P.U. 1531, at 11-12 (1983). These expenses must be shown to be prudently incurred and reasonable. Id. The decision-making process in the selection of contractors, the choice of marketing techniques and expenses, and the allowance made for administrative and other operating costs should be documented to demonstrate that the utility has chosen a reasonable means of meeting the program requirements at the lowest cost. Id. The utility should show that a reasonable range of options has been considered before choosing one particular contractor or plan. Id.

Further, the Department has stated that to aid in determining the reasonableness of certain proposed adjustments to test-year operating expenses in rate-case proceedings, all utilities, where possible, must provide analyses comparing these adjustments to those of other investor-owned utilities in New England. Massachusetts Electric Company, D.P.U. 92-78, at 19-20, 25-26, 30

(1992). While recognizing the obvious differences between a rate-case proceeding and an ECS budget-review proceeding, the Department has found that a comparative analysis technique is a useful tool in determining the reasonableness of certain operating expenses. Boston Edison Company, D.P.U. 93-90, at 10 (1993). Thus, as a means of determining the reasonableness of a given company's ECS operating expenses, a company must compare, where possible, its ECS operating expenses against similar expenses of other companies. The company must then explain and justify any costs to serve its customers which are higher than comparable operating expenses of other companies. The Department will consider a company's explanations and justifications in the Department's comparative analysis of ECS budgets.

After completing its review of a utility's proposed ECS expenditures for reasonableness, the Department also must review the utility's proposed ECS surcharge by which the utility is entitled to recover the full cost of the ECS program from its customers. As part of this review, the Department must examine any differences between the amounts collected and the amounts expended on the ECS program by the utility during the prior fiscal year and deduct any expenses that it finds to have been unreasonable. G.L. c. 164 App., § 2-7(f). After deducting any unreasonable expenses, the Department must ensure that the net difference is reflected accurately as an adjustment to the utility's proposed ECS surcharge for the upcoming fiscal year. Id.

V. ANALYSIS AND FINDINGS

A. FY 1994 Expenses

In Boston Edison Company, D.P.U. 93-90 (1993), the Department approved a net operating budget of \$1,775,972 for BECo's FY 1994 ECS program. The budget approval was

based on a one to four Unit Program goal of 9,000 audits, an equivalent services goal of 15,705, and an MFB goal of 375 audits. BECo reported that its actual twelve-month expenditures for FY 1994 were \$1,503,007 (Exh. BE-2, Vol. 1, at IV-2.1). The Company provided a justification for all budget line-items which varied by more than \$2,000 from the budget approved in D.P.U. 92-113 (id., at IV-1.17). BECo reported that in FY 1994 it completed 8,777 audits in the 1-4 Unit Program, provided 15,989 equivalent services, and performed 82 MFB audits, covering several times as many buildings (id., Vol. 2, at Exh. 5, and Vol. 3, at 4). Thus, BECo reported that in FY 1994 it generally met its performance goals while underspending its budget.

Based on our review of the record in this proceeding, the Department finds the Company's twelve-month expenditures for FY 1994 to be reasonable and therefore recoverable from its ratepayers.

B. FY 1995 Expenses

In Boston Edison Company, D.P.U. 94-79 (1994), the Department approved a net operating budget of \$1,563,419 for BECo's FY 1994 ECS program. The budget approval was based on a 1-4 Unit Program goal of 8,000 audits, an equivalent services goal of 14,410, and an MFB goal of 300 audits (Exh. BE-2, Vol. 1, at II.1).

Based on nine months actual operating expenses of \$996,177 and three months estimated operating expenses of \$392,390, BECo projected total expenditures of \$1,388,567 in FY 1995 (id. at III-1.2). BECo further projected that by the end of FY 1995, it will have completed 7,920 audits in the 1-4 Unit Program, provided 14,200 equivalent services, and performed 624 audits in the MFB program (id. at II.1). Thus, BECo projects that in

FY 1995 it will generally meet its performance goals while underspending its budget.

The Company has provided a complete explanation of its expenditures for the first nine months of FY 1995 (id. at V-6.A.7). The Department finds the \$996,177 of expenditures in these months to be reasonable, and therefore recoverable from ratepayers. The Department will review the Company's actual expenditures for the final three months of FY 1995 in the next annual budget review.

C. Proposed Budget for FY 1996

BECo has provided documentation showing that DOER has approved all goals and components of the Company's 1-4 Unit and MFB UIPs (Exh. BE-2, at V-1). Furthermore, DOER indicated that the budget is consistent with BECo's approved UIP and program goals for FY 1996 (Exh. DOER-1, at 4). The Department notes that the Company's filing adequately identifies a cost element for each goal and component of its UIP. In addition, the Company has provided an explanation of the budget expenditures, all of which were listed by line-item account (Exh. BE-2, Vol. 1, at III).

The record suggests that the line-item budget expenditures proposed by the Company to meet its FY 1996 goals are reasonable. The record shows that BECo has employed a reasonable decision-making process for contractor selection and choice of marketing techniques. The Company's comparative analysis shows that the Company's cost per audit is \$135.70, and that the Company's FY 1996 ECS-budgeted expenses per audit appear comparable to those of other ECS providers.¹³

¹³ The Department encourages companies to analyze their own costs in relation to other
(continued...)

Accordingly, based on our review of the record, we find that a net operating budget of \$1,480,888 for FY 1995 is reasonable and that the proposed surcharge of \$0.16 per customer bill is appropriate. The Department will review the actual FY 1996 expenditures in the next annual budget review.

(...continued)

companies' similar costs, in order to gain a better understanding of how competitively priced their given energy services, including ECS, are, and to make whatever changes are necessary to become more competitively priced in the future.

VI. ORDER

Accordingly, after due notice, hearing, and consideration, it is

ORDERED: That net operating expenses of \$1,503,007 are approved for Boston Edison Company for the fiscal year July 1, 1993 through June 30, 1994; and it is

FURTHER ORDERED: That net operating expenses of \$996,177 are approved for the first nine months of the fiscal year July 1, 1994 through June 30, 1995; and it is

FURTHER ORDERED: That a net operating budget of \$1,480,888 is approved for Boston Edison Company for the fiscal year July 1, 1995 through June 30, 1996; and it is

FURTHER ORDERED: That an Energy Conservation Service surcharge of \$0.16 per customer bill is approved for Boston Edison Company for the fiscal year July 1, 1995 through June 30, 1996; and it is

FURTHER ORDERED: That if Boston Edison Company is overcollecting by more than ten percent by the end of the third quarter of the fiscal year, the Company must refile for an adjustment to, or elimination of, its surcharge.

By Order of the Department,

Kenneth Gordon, Chairman

Janet Gail Besser, Commissioner

Mary Clark Webster, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).